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ON RURAL REFORM, ECONOMY, BUT PROVIDES FEW DETAILS

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SUMMARY

I1. (C) The Third Plenum of the Chinese Communist Party (CCP) 17th Central Committee concluded on October 12, adopting a "Decision" on rural reform and development that, as expected, emphasized the importance of the countryside to China's overall development and pledged to devote considerable resources to closing urban-rural gaps. Apart from a promise to double peasant incomes by 2020, however, few details were provided, with the communique issued following the Plenum's close merely listing a series of lofty goals without stating how the Party plans to achieve them. The critical subject of land reform was mentioned only briefly in the communique, suggesting a possible lack of consensus over the issue of land rights, or at a minimum, a desire to move cautiously on this controversial subject. In an apparent attempt to allay concerns over the global financial crisis, the Plenum communique also addressed the PRC economy, emphasizing China's "sound" economic fundamentals, "relatively fast" growth and "stable" financial sector. Vice Minister of Culture Yu Youjun was dismissed from the Central Committee at the Plenum, reportedly over corruption allegations. End Summary.

PLENUM CLOSES OCTOBER 12

I2. (SBU) Immediately upon conclusion of the October 9-12 Third Plenary Session ("Plenum") of the Chinese Communist Party (CCP) 17th Central Committee, an official Plenum communique was issued by the official Xinhua news agency highlighting the session's themes (ref A), most notably passage of a "Decision" on rural reform and development ("CCP Central Committee Decision Concerning Several Major Issues on Advancing Reform and Development in Rural Areas"). The Communique said that in addition to 202 CCP Central Committee members and 166 alternates, several "non-voting" representatives attended, including officials from the Central Discipline Inspection Commission and other "relevant departments," as well as a number of additional experts, scholars and delegates to last year's 17th Party Congress who work on agricultural issues. CCP General Secretary Hu Jintao delivered an "important speech" as well as a "work report" on behalf of the Politburo (neither of which have been made public). The Plenum also "reviewed" the Politburo's work over the past year, particularly praising the leadership's "triumph" in overcoming various "challenges," which included

the snowstorms in southern China, the Sichuan earthquake, the staging of the Olympics and Paralympics and the launch of the Shenzhou-7 manned space flight.

ALLAYING FEARS OVER THE FINANCIAL CRISIS

13. (C) In an apparent attempt to allay domestic concerns over the ongoing international financial crisis, the communique briefly touched upon the Plenum's discussion of the economy, emphasizing China's "sound" economic fundamentals, "relatively fast" economic growth and "stable" financial sector. While warning of the "potential dangers" and "challenges" stemming from the "turbulence" in international financial markets, the communique said that China will adopt "flexible and prudent" macroeconomic policies. Most important, the communique stated, is for China to "take care of its own business well," emphasizing the need to increase domestic Chinese demand, especially consumer demand, and to maintain "stability" in the economy, finance and capital markets.

14. (C) People's Bank of China (PBOC) Governor Zhou Xiaochuan echoed the Plenum communique's language on the economy by telling a Washington visitor on October 13 that, in light of the financial crisis, the PRC Government's economic goals have shifted suddenly from "controlling inflation" to providing a "flexible and prudent" response to the global situation. Following the end of the Plenum, the PBOC is now hard at work developing a "probably temporary" response package, Zhou said.

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15. (C) Separately, two Chinese journalists complained to PolOff about how "vague" the Plenum communique was on economic issues. Cheng Mingxia (protect), an international page editor with the independent newspaper Economic Observer, told PolOff October 14 that many in China were hoping for more discussion in the communique about the financial crisis and what the leadership is prepared to do to stimulate the economy. Instead, the communique merely made a brief positive statement about China's economic fundamentals before turning to rural issues. China's Government and propaganda apparatus are "extremely nervous" about public discussion of the financial crisis and its impact on China, Cheng said, for fear that such reporting will spark widespread unease and an even greater stock slide. The Party thus wants to avoid showing undue concern over the financial crisis or giving any hints about a stimulus package that is known to be in the works, Cheng said. Lam Li (protect), the Economic Observer's English language editor, agreed with Cheng, noting to PolOff that China's media is restricted from attempting to parse the phrasing of the Plenum communique and must stick with the official line as presented by the Xinhua news agency.

"DECISION" ON RURAL REFORM, BUT FEW DETAILS

16. (C) In accordance with the session's declared focus on rural reform and development (ref B), the Plenum adopted a "Decision" on that subject that, as expected, emphasized the importance of the countryside to China's overall development, pledging to devote considerable resources to closing urban-rural gaps and addressing other critical problems such as the urban-rural "dual system," weak rural infrastructure, lagging development and low peasant incomes. The Plenum communique provided few details on how the Party will attempt to solve these problems, however, instead sticking to the recitation of lofty goals and abstract platitudes. For example, the communique proclaimed that, "The Plenum has come up with a plan (bushu) for expediting rural reforms and development today and in the time to come." Elsewhere, the document stated that China must "achieve a major breakthrough" and "create a new pattern" on issues such as integrated urban and rural reform, without providing enough

specifics to judge precisely what the Party's plan is, or how feasible it might be.

¶7. (SBU) A number of "basic objectives" in six broad categories were listed in the communique, with a deadline for completion of 2020. Nevertheless, apart from the goal of doubling peasants' per capita net income, most goals were only broadly defined. They included, in part:

-- A) Further strengthen the "rural economic system" and establish a "mechanism" to integrate urban and rural economic and social development;

-- B) Make "conspicuous progress" in the establishment of modern agriculture, "considerably raise" combined agricultural productivity, and "effectively guarantee" the nation's food security and supply of agricultural products;

-- C) Double peasants' 2008 per capita net income, raise peasants' consumption level, and essentially eliminate absolute poverty;

-- D) Strengthen peasants' grassroots organizations, further "perfect" rural residents' "autonomous system," and firmly safeguard peasants' democratic rights;

-- E) Promote "equalization" of basic public services in urban and rural areas, make rural culture prosper further, (make) every rural resident enjoy the opportunity of receiving a good education, further strengthen systems ensuring peasants' fundamental livelihood and basic medical and health care, and further perfect rural society's management systems;

-- F) A resource-efficient and environmentally friendly model of agricultural production will take shape, peasants' residential and ecological conditions will noticeably improve, and the capacity for sustainable development will be strengthened.

¶8. (C) The communique also described a series of general "principles" that should be followed in achieving the above objectives, while emphasizing that work concerning agriculture, rural areas and peasants should be the Party's "top priority." The document made general reference to the need to take action in areas discussed in official PRC media prior to the Plenum's opening (ref B), such as integrating urban and rural development, enhancing rural productivity and building a modern rural finance system. In a clear reference

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to recent food scandals, the communique said that the quality of agricultural products should be ensured and "substandard" agricultural goods should be prevented from entering the market.

LAND REFORM -- WHAT HAPPENED?

¶9. (C) The critical subject of land reform was mentioned only briefly in the communique, which referred simply to the need to "improve and strictly regulate (guifan) the rural land management system." The cursory treatment of land issues in the communique suggests a possible lack of consensus over the issue of land rights, or at a minimum, the Party's desire to move cautiously on this controversial subject. (Note: It is possible that further details on what, if anything, was decided on land -- and other rural reform issues -- could be made public in the coming weeks. The actual text of the "Decision" may provide helpful clues in this regard, presuming that it is eventually released to the public. In 2006, the full text of the "Decision" adopted at the Sixth Plenum of the 16th CCP Central Committee was released one week after that session's close.)

¶10. (C) Prior to the Plenum's opening on October 9, official

and semi-official PRC media discussed various land reforms to be considered at the Plenum, including extending the time limit on peasants' land-use rights under the household contract system, and steps to allow peasants to enjoy "asset-style income" by, for example, enabling the transfer (for a fee) of land use rights and the use of land as collateral to secure loans (ref B). These proposed steps have, however, sparked considerable debate in some quarters. Xue Fukang (protect), Vice Chairman of the Central Party School-affiliated think tank China Reform Forum, told PolOff on October 7 that land reform issues are "extremely controversial," especially among "leftists," who fear that changes to China's land management system will lead to further loss of peasant land and concentration of farmland in the hands of the few. Xue cautioned that new land reforms that might be adopted at the Plenum would be implemented only "gradually."

INITIAL REACTION FROM CONTACTS

¶11. (C) In their initial reaction to the Plenum communique, contacts generally agreed that rural reforms would be implemented only gradually, even as they differed in their interpretation of the communique's relative silence on the subject of land reform. For example, signaling caution over changes to rural land rights, PBOC Governor Zhou Xiaochuan on October 13 told a Washington visitor that the land reform process must be "orderly" because China needs to "control migrant labor." Zhou thought that the size of farms will remain small, but that Chinese peasants will be allowed to diversify their activities in order to maximize production. (Comment: Zhou's comments may indicate that concerns over migrant labor were one factor in tempering enthusiasm for sweeping land reform at the Plenum.)

¶12. (C) Sounding a similarly cautious note on land reform, Xiao Lian (protect), Professor and Director of the Center for American Economic Studies at the Chinese Academy of Social Sciences (CASS), told EmbOffs on October 14 that the Plenum communique's lack of detail on the subject of land reform likely meant there was no formal agreement at the Plenum on precisely how to proceed. Therefore, the Party (and Government, at both central and local levels) will continue wrestling with what specific land reforms to implement in the months and years ahead. Xiao conceded that a "majority" of observers and officials support land reform, but a vocal "minority" nevertheless have significant concerns. Voicing anxiety over the risks inherent in land reform, Professor Xiao emphasized that the current focus is on a "Party document" -- the Central Committee "Decision" -- "not a law." That is an important distinction, because protecting property rights is critical. "There can be no market (for land) if there is no ownership," he said. Moreover, there is concern that if the free "trading" of land rights is allowed, then it will be a small group of local Party officials, not Chinese farmers, who will eventually benefit most, Xiao said.

¶13. (C) Other contacts were more sanguine about the Plenum's implications for land reform. According to Peng Xiaohua (protect), Principal Counsel, PRC Resident Mission of the Asian Development Bank, even though the Plenum communique lacks details, the "general direction" of reform, including on land, remains "clear." Peng told EmbOffs on October 14 that the Plenum's outcomes will, at least eventually, enable peasants to transfer their land-use rights and to use such

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rights as collateral for loans. The Plenum also creates the right "environment" for further "experimentation" on land reform. The goal is to increase the size of individual farms so as increase efficiency via economies of scale. Initially, land reform will be limited to allowing for larger plots of land to be used for farming, Peng predicted, but usage of farmland for other purposes will be prohibited. The Plenum is "only the start of rural reform," Peng emphasized. Li

Guofu (protect), CASS Senior Research Fellow, agreed with Peng, telling EmbOffs on October 14 that the current land reform initiative is designed to get peasants to invest more in their own land. The Party's policies discussed at the Plenum serve only as a "guideline" in encouraging people to do so. Guo predicted that existing land-use rights will be extended beyond their current 30-year period, but that all the details "have yet to be decided" and will only become clear as we move "closer to 2020."

¶14. (C) Tao Wenzhao, Senior Fellow at the CASS Institute of American Studies, sounded a similarly optimistic note on land reform in an October 14 meeting with PolOff. Noting that the outcome of the Plenum was "as expected," Tao argued that the Party's general intent on land reform was made clear during President Hu Jintao's trip to Anhui Province's Xiaogang Village, Fengyang County, just prior to the Plenum. In Anhui, according to Tao, Hu Jintao told peasants that "their" contract responsibility system would be "protected" and that they would have "transfer rights" (liuzuan quan). By being able to transfer land-use rights, they could use land as an asset, Tao explained. Peasants would have surface rights (tianmian quan), but the state would still own the "base" of the land (tiandi quan). Tao said the contract responsibility system was originally established for 30 years under Deng Xiaoping, but now has been extended "essentially indefinitely" (for at least 70 years, according to Tao).

(Note: Tao did not specifically state that these land reform proposals were formally adopted by the Plenum. Rather, he appeared unconcerned by the Plenum communique's lack of detail on the subject, arguing that it was Hu's trip to Anhui prior to the Plenum that signaled the Party's intention on changes to China's land management system.)

YU YOUJUN REMOVED FROM CENTRAL COMMITTEE

¶15. (C) The communique announced that the Plenum had removed Vice Minister of Culture Yu Youjun from the Central Committee, replacing him with alternate Central Committee member Wang Xinnian. Yu was formerly seen as a fast riser and Hu Jintao protege, and was even rumored last fall to have been involved in the drafting of Hu's "political report" delivered at the 17th Party Congress (ref F). Since early 2008, however, contacts have told PolOff that Yu's prospects for advancement were complicated by a corruption scandal, which was reflected in his having been appointed to the relatively "unimportant" post of Vice Minister of Culture. The Plenum approved an investigation report on Yu conducted by the Party's anti-corruption watchdog, the Central Discipline Inspection Commission, and decided to place him on probation within the Party for the next two years. (Note: Yu's political troubles may have begun even earlier, when as Governor of Shanxi Province, he was caught up in the June 2007 brick kiln slave labor scandal, after which he was forced to make a "self-criticism" on behalf of the Shanxi Provincial Government.)

COMMENT

¶16. (C) The Plenum communique, despite its lack of detail, clearly demonstrates the Party's desire to emphasize rural reform, with the stated goals being to increase economic efficiency and ensure social stability in the countryside. Whatever new "reforms" may have been decided at the Plenum, the Party under General Secretary Hu Jintao appears determined to continue its cautious approach of continuing the general path of reform and opening, while simultaneously taking incremental steps to spread the benefits of reform to peasants and others who have not benefited as much, in relative terms, from the stunning economic growth of the past 30 years. Judgment of the effectiveness of these "new" rural reform plans will have to wait until it is clear what the Party is actually willing, and able, to implement at the local level nationwide.

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